



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Craffu ar Waith y Prif Weinidog
The Committee for the Scrutiny of the First Minister**

**Dydd Mawrth, 7 Rhagfyr 2010
Tuesday, 7 December 2010**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Val Lloyd	Llafur (Yn dirprwyo ar ran Sandy Mewies) Labour (Substituting for Sandy Mewies)
David Melding	Ceidwadwyr Cymreig (Yn dirprwyo ar ran Darren Millar) Welsh Conservatives (Substituting for Darren Millar)
Jenny Randerson	Democratiaid Rhyddfrydol Cymru (Yn dirprwyo ar ran Kirsty Williams) Welsh Liberal Democrats (Substituting for Kirsty Williams)
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Charles Coombs	Pennaeth Cangen, Materion Cyfansoddiadol a Chymorth Polisi, Llywodraeth Cynulliad Cymru Head of Branch, Constitutional Affairs and Policy Support, Welsh Assembly Government
Andrew Jeffreys	Pennaeth Cyllido Strategol, Llywodraeth Cynulliad Cymru Head of Strategic Budgeting, Welsh Assembly Government
Carwyn Jones	Aelod Cynulliad, Llafur (Y Prif Weinidog) Assembly Member, Labour (The First Minister)

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Aled Jones	Clerc Clerk
Meriel Singleton	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 8.30 a.m.
The meeting began at 8.30 a.m.

Ethol Cadeirydd Dros Dro i'r Pwyllgor
Election of Temporary Committee Chair

[1] **Mr Jones:** Bore da, bawb. Croeso i'r cyfarfod hwn o'r Pwyllgor Craffu ar Waith y Prif Weinidog. Yn anffodus, ni all ein Cadeirydd, Darren Millar, fod yn bresennol heddiw. Mae David Melding yn eilyddio ar ei ran. Yn unol â Rheol Sefydlog Rhif 10.19, gofynnaf am enwebiadau ar gyfer ethol Cadeirydd dros dro ar gyfer y cyfarfod heddiw.

Mr Jones: Good morning, everyone. Welcome to this meeting of the Committee for the Scrutiny of the First Minister. Unfortunately, our Chair, Darren Millar, is unable to be here today. David Melding is substituting for him. In accordance with Standing Order No. 10.19, I call for nominations for the election of a temporary Chair for today's meeting.

[2] **Val Lloyd:** I wish to nominate David Melding.

[3] **Mr Jones:** A yw pawb yn gytûn? Gwelaf eich bod; felly galwaf ar David

Mr Jones: Is everyone content? I see that you are; therefore, I invite David Melding to

Melding i gymryd y gadair.

take the chair.

*Penodwyd David Melding yn Gadeirydd dros dro.
David Melding was appointed temporary Chair.*

8.31 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[4] **David Melding:** Good morning. I thank Members for nominating me as this morning's temporary Chair. I welcome everyone to this meeting of the Committee for the Scrutiny of the First Minister. I will just start with the usual housekeeping announcements and remind Members and members of the public that these proceedings are bilingual. When Welsh is spoken, a translation is available on the headsets. You will need to use channel 1 for the translation. Should you wish to just amplify proceedings, you may do that by using channel 0 on the headsets. Should any Member or member of the public have difficulty with the headset, please just indicate to the usher, who will then help you. I ask everyone, including members of the public, to completely switch off any electronic equipment. Please do not leave it on 'silent', as it will interfere with our broadcasting equipment. We do not anticipate a fire alarm, so if we hear the alarm, we must take it seriously and leave the building under the instructions of the ushers. I remind the witnesses and Members that the microphones will work automatically; you do not need to press any buttons.

[5] With all of that out of the way, I will move to apologies and substitutions. I am substituting for Darren Miller. Trish Law is, unfortunately, unable to be present at today's meeting sends her apologies. Kirsty Williams is being substituted by Jenny Randerson, and Sandy Mewies also sends her apologies for absence and is being substituted by Val Lloyd. I welcome all Members this morning, particularly those who are substituting.

8.32 a.m.

Craffu ar Gyllideb Ddrafft Llywodraeth Cynulliad Cymru Scrutiny of Welsh Assembly Government Draft Budget

[6] **David Melding:** I am pleased to welcome Carwyn Jones to today's meeting. He is joined by Andrew Jeffreys, head of strategic budgeting. I suspect that we might be joined by Charles Coombs, as there is a place at the table for him.

[7] **The First Minister (Carwyn Jones):** He is seated behind me.

[8] **David Melding:** Perhaps, Mr Coombs, you might wish to avail yourself of that place at the table. If the First Minister or we need to involve you in this morning's meeting, please come to the table at that point.

[9] As far as the discussion is concerned, we have had a pre-meeting and I have indicated the structure that I intend to follow. However, I would welcome spontaneous contributions as the discussion goes forth. I would particularly welcome a strategic view of some of these questions and use the time to scrutinise the First Minister in that way. We have received a paper from the Welsh Assembly Government, and we also have our own briefing from the Members' research service. Before I call the first question, do you wish to make a brief introductory statement, Carwyn?

[10] **The First Minister:** Good morning, Chair. I was not planning to say anything at this

stage. I know that Members will have questions. As you have already mentioned, I have submitted written evidence to the committee, and I am happy to take questions on that evidence.

[11] **David Melding:** Thank you, First Minister. We thought that we would first look at the Welsh Government's strategic priorities and 'One Wales' commitments before we drill into matters relating specifically to the budget, which is obviously of great concern to everyone in the Assembly and the public generally. Val Lloyd is first.

[12] **Val Lloyd:** Good morning, First Minister. Thank you very much for your paper on delivering the 'One Wales' commitments. In that paper, you tell us that over 70 per cent of the 'One Wales' commitments have already been delivered. In the light of the draft budget and the very difficult financial climate and fiscal decisions, what is your estimation on achieving the remaining 'One Wales' commitments?

[13] **The First Minister:** We believe that we will achieve the existing commitments. It is obviously useful that so many of them have been finished before now, as we enter a very difficult period financially.

[14] **Val Lloyd:** Thank you; that is a very direct answer. Thank you, Chair—I do not wish to pursue the question further.

[15] **Jenny Randerson:** In relation to what you have said your priorities are this year in the budget, you have obviously emphasised the importance of the health budget and maintaining the health budget to a considerable extent. However, as you well know, because you have been challenged on it on many occasions, there is a view that a considerable proportion of that budget is not spent as efficiently and effectively as it might be. I am not saying that with a view to your saying whether you necessarily want to slash the budget; that is not your priority. However, clearly, your priority is to spend that budget as effectively as possible. We well know that Wales still faces considerable challenges with regard to the comparability of our health service with that in other parts of the UK. So, what review have you done of the effectiveness of spending within the health budget specifically? Perhaps you could go on from that to describe to us how you and your Government approached this budget, given that you knew that it was going to be difficult. You knew that it was going to be difficult a year ago, effectively. One can argue about a percentage point here and there, but you did know that, so I am interested in how, internally, you reviewed the whole process to ensure that your money will be spent as effectively as possible.

[16] **The First Minister:** First, with regard to the supposed £1 billion that is not being spent effectively, the only reference I have been able to find to that is one line in one committee from one person. Clearly, without any more detail, it is very difficult to answer that suggestion, because no evidence has been produced to back it up. There are people who take the view that health spending is inefficient because there are too many hospitals, for example. That is not a view that I hold, and it is certainly not a view that the Minister for Health and Social Services or the Welsh Assembly Government take. I think that it is important to clarify what people mean when they talk about money not being spent wisely. On this occasion, I do not believe that that evidence has been in any way forthcoming. We cannot review something for which there is no evidence.

[17] You asked about the process that was adopted. It is absolutely true to say that we expected the situation to be difficult. I think that it is right to say that the revenue settlement that we have received from the UK Government was as bad as we had expected, not worse. The capital settlement was worse than we expected. The decision was taken some months before the draft budget that we would outline beforehand what our principles would be when it came to which areas we wished to seek to protect. As was said many times, schools, skills,

primary and secondary care and universal benefits were the areas that were singled out for protection. We realise, of course, how important health and education are; they make up a significant proportion of our spend as a Government, and we have done as much as we can to protect spending in those areas. Nevertheless, very difficult decisions have had to be taken in other areas, but we have kept true to the principles we outlined before the draft budget was published.

[18] **Jenny Randerson:** Going back to the issue of the health budget, that one line said in one committee was said by a Government official. Therefore, surely, that information is available. Did no-one follow that up? Did no-one talk to that senior official? It would not have been a junior official, because a junior official would not have been giving evidence to the committee. Did no-one talk to him about what had led to that assumption, because officials do not normally say that sort of thing unless they have really good reason to say it? I know that, in other committees, the Minister concerned has given an assurance that every aspect of their budget has been looked at with a view to efficiency and effectiveness.

[19] **The First Minister:** That is true of all budgets, and it is something that will continue to be the case over the next three years. I believe that the comment was made by a local health board official rather than a Government official. I was surprised at the time that the committee did not pursue it, because that was a comment, I am sure, that should have led to more questions from committee members. However, it was not pursued, for whatever reason, and no evidence has been forthcoming to back up that comment.

8.40 a.m.

[20] **Jenny Randerson:** Have you looked for that evidence by talking to him?

[21] **The First Minister:** We have not suggested that. If someone makes a suggestion, it is surely for them to produce the evidence.

[22] **David Melding:** I will take us on to where the efficiency and innovation board sits in this, because it is important for the public, and for the Assembly as a whole, that there is clear evidence against which we can benchmark and compare performance over time. Is that something that you see the efficiency and innovation board bringing forward? That could include better benchmarked data—and, in fairness, there has been criticism of all Governments in in the UK, not just the Welsh Assembly Government—because we sometimes get a bit lost in the volume of detail, and we do not have the clear outcomes to measure whether we are getting more innovative and efficient.

[23] **The First Minister:** The board has that role; it also has the role of examining all aspects of spend to ensure that it is made efficiently, particularly with regard to the Government's administration costs. It is clearly our intention to benchmark properly and to be able to demonstrate that the money is being spent in the most effective way, and the board is part of that process.

[24] **David Melding:** Perhaps we could have a note on the benchmarking exercise, if it is going on. This has been raised quite often in the Assembly, and your colleague Andrew Davies has made the point in the past that quality data and key outcomes, in limited number, would be a great advance for the Assembly's scrutiny function.

[25] **The First Minister:** I can provide the committee with a note on that.

[26] **David Melding:** Jenny, do you wish to come in?

[27] **Jenny Randerson:** I wish to go back to something else. Another strategic priority of

yours, which is clearly a political commitment, is the retention of universal benefits, such as free prescriptions, concessionary travel, free swimming, free breakfasts and free milk for schoolchildren. Was that approach simply a political commitment of yours, or did you review the effectiveness of that very contrasting group of benefits, of which there are probably one or two more? Have you reviewed the effectiveness of each of those benefits and whether they are hitting their targets?

[28] **The First Minister:** They are political commitments, and the evidence suggests that they are hitting their targets. Taking one example, bus passes are very popular. These benefits also serve a purpose. In the case of bus passes, it is to enable people to travel, to get around, particularly those who are unable to drive, perhaps because of disability or age. Free prescriptions remove a barrier to people going back to work. For example, if somebody is ill and has to take several different types of medicines, the cost of a prescription can act as a barrier to going back to work, particularly given that prescription medicines are free when claiming benefits. So, yes, they are political commitments; there is no question about that. I am proud of those commitments, but they also have a practical purpose. They are similar to the view that we took that it is important to ensure that as many people as possible have access to university education.

[29] **Jenny Randerson:** However, you have not done a one-by-one review of their effectiveness; you have just taken the view that they are political commitments and they therefore stay.

[30] **The First Minister:** We believe that they are effective. We see no reason to hold a review at this stage. So, to be frank, they are political commitments that we will defend and promote.

[31] **David Melding:** That is very clear, but whether we agree with it is another matter altogether. There are certain costs in universal benefits that everyone accepts make them, to some degree, inefficient. However, the entitlement element is the other side of that, which comes with a large political commitment.

[32] We now move on to the spending review and the Welsh block. Leanne will start us off on this.

[33] **Leanne Wood:** Thank you, Chair. The budget allocation to Wales has been widely described as unfair and disproportionate. We all know—and there is cross-party acceptance—that the Barnett formula discriminates against Wales. Given all of that, will you outline what you have done to try to challenge the funding settlement from Westminster?

[34] **The First Minister:** With the support of all parties in the Assembly, we have raised the issue many times with the Treasury. The evidence given by the Chief Secretary to the Treasury here suggests that the issue of Barnett reform is not on the table, but that the issue of some kind of an examination of taxation is. I need to make it very clear that it is not the policy of the Assembly Government to pursue tax-raising powers, nor indeed was it suggested by Gerry Holtham. He made it very clear in the review that the first objective is to secure a fairer funding of resources across the whole of the UK; that must come first before even considering anything else. I was surprised—well, I am not surprised because he is a Scottish MP—by the view taken by the Chief Secretary of the Treasury. I think there are opportunities now for the reform of Barnett, particularly with the implementation of the Calman commission recommendations in Scotland. It seems that Scotland will have fiscal powers and it may well release money back to the Treasury that could then be distributed to Wales, without the reform of Barnett. So, it is possible, in my view, given what I have seen so far, that the £300 million could be made available to Wales without reforming Barnett itself because of the effects of Calman.

[35] **Leanne Wood:** You said that you have made representations to the Treasury. Can you give some indication of what kind of representations you made and the responses you have received?

[36] **The First Minister:** There have been many letters and many meetings—not just me attending the Joint Ministerial Council; Jane Hutt, the Minister for finance, has also had several bilateral and quadrilateral meetings, and she has raised the issue many times with the Treasury.

[37] **Leanne Wood:** Have you put the case that Wales is being treated unfairly?

[38] **The First Minister:** Yes. We have recommended Holtham to the UK Government. I am not sure that it has rejected it. What is not clear in my mind is whether it does not accept its findings—and it has not made that clear—or whether it is the case that it does not want to implement the findings. The second part is clear; it has no wish to implement the findings and there is no commitment on the part of the UK Government to reform Barnett at this stage. The Chief Secretary to the Treasury made that clear.

[39] **Leanne Wood:** Have you thought about triggering the dispute resolution procedure under chapter 12 of the—

[40] **David Melding:** The protocol.

[41] **Leanne Wood:** Yes, it is the protocol between the Treasury and the Welsh Assembly Government. It includes a dispute procedure that, apparently, in 2009, had never been used. Is that something that you have looked at?

[42] **The First Minister:** It is being used at the moment, not for Barnett, but for the dispute over the Barnettised share of the Olympic spend. That is still ongoing.

[43] **Leanne Wood:** Okay. Can that procedure be used to challenge the unfairness and the disproportionate level of cuts to Wales in the block grant allocation?

[44] **The First Minister:** The resolution process is designed to look at disputes in terms of interpretation rather than disputes in terms of policy, if I can put it that way. What is difficult of course is that there does not seem to be any dispute. I am not aware that the UK Treasury has taken the view that it does not want to implement Holtham. What it seems to have said is that it does not want to implement Holtham now.

[45] **Leanne Wood:** But there is a dispute over the budget in terms of its fairness to Wales.

[46] **The First Minister:** Yes. That is certainly our view as a Government. It is not something that we have taken through the dispute resolution process as yet, but certainly if the situation does not change over the next few months, that is something that we will have to give consideration to.

[47] **Jenny Randerson:** You mentioned the Olympics. The issue of the Olympic spend has been a very sore point ever since we won the Olympics. At what point did you trigger the dispute procedure?

8.50 a.m.

[48] **The First Minister:** The dispute was triggered originally by the Scottish

Government. It is a process that we have attached ourselves to. At present, we are looking to engage a third party to look at the dispute resolution process and make recommendations to the Joint Ministerial Committee. However, if you are asking whether this is something new, it is not; this dispute existed before the present UK Government came into being, and we took the same view then as we do now. I am not saying that this is all the fault of the present Government; it was an issue that existed before then.

[49] **Jenny Randerson:** That is an interesting answer. I am trying to get a handle on how long it will be before we get an outcome to that.

[50] **The First Minister:** There is no timescale as yet. The first thing that we try to do in any dispute is to try to resolve it through correspondence and meetings. If that does not work, the dispute resolution process is engaged, which is why it takes a little time for a matter to become the subject of a dispute and for the dispute resolution process to be engaged. However, the Olympic dispute process is still live and ongoing.

[51] **Jenny Randerson:** May I move on to another issue, which relates to the Welsh block?

[52] **David Melding:** Yes.

[53] **Jenny Randerson:** The capital cut was considerable; I believe that it was 41 per cent. Do you agree with that percentage?

[54] **The First Minister:** Those are the Treasury's figures.

[55] **Jenny Randerson:** Alistair Darling had indicated that it would be 45 per cent, so that capital cut would not have come as a surprise to you. What preparations had you made, given that you had had such a long lead-in time of a warning that there was going to be a big capital problem?

[56] **The First Minister:** It was not really a warning to us that someone who was not in Government should be saying that there should be a 45 per cent capital cut. What we were not aware of was the scale of the cut in terms of capital; we made preparations to deal with that. What troubles us is the fact that the cut in the Welsh capital budget is greater than that of Scotland and Northern Ireland; the same is true of revenue. The difficulty that that creates is that we already agree, across the parties in the Assembly, that Wales is underfunded, and, on top of that, we now find that Wales is having a disproportionate cut in revenue and capital funding when compared to Scotland and Northern Ireland. That makes things very challenging.

[57] **Jenny Randerson:** The difference between us and Northern Ireland and Scotland is that, historically, they have utilised public-private partnerships, and, going back seven years, the private finance initiative, to supplement their capital to a much greater extent than has ever happened in Wales. Indeed, 'One Wales' includes a commitment that private sector funding will not be used in the health service, and there was a time when Ministers, across the board, rejected it. In the last week, in answer to questions from me in committee, two Ministers have said that they are looking at private sector funding to supplement capital and that they are open to any suggestions in that respect. Is that a decision that has been made at Cabinet level? Is this a change of policy? What progress has been made in terms of seeking to look at alternative ways of funding capital projects?

[58] **The First Minister:** First, the use of PFI or PPP in other parts of the UK is not a factor in determining, or trying to determine, why Wales has had a worse settlement in terms of capital.

[59] **Jenny Randerson:** No, I was not suggesting that it was.

[60] **The First Minister:** Secondly, the Northern Ireland Executive, for example, has a borrowing power that we do not have and that the Scots do not have. If I remember rightly, it can borrow up to £200 million every year. It has done that fairly consistently, but it is not a power that is available to us.

[61] Thirdly, PFI, in particular, has a chequered history; there have been some bad examples of PFI schemes in terms of the cost to the public purse, and that is not something that we would not want to reopen or revisit. However, there are other ways of securing capital from outside, such as through investment trusts. Therefore, we are looking at ways of leveraging new forms of funding into particular projects. However, going back to PFI and PPP, given the questionable deals in terms of value for money, that is not an option that we are looking at.

[62] **Jenny Randerson:** We are aware that the Finance Committee conducted a thorough review some years ago of PPP and PFI, and there are very different approaches nowadays. I was not for one minute suggesting that that approach was the cause of the difference. Clearly, it was not, but it is a way of coping with it, and that is why I was asking the question. You mentioned in your answer that Northern Ireland has borrowing powers. Given that the UK Government clearly has an open mind as to whether we could have some tax-varying powers, have you approached it with a request for borrowing powers? I think that borrowing powers would be very useful for the Welsh Assembly Government.

[63] **David Melding:** It is a recommendation in the Holtham commission's report.

[64] **The First Minister:** Yes, it is in the second report. First of all, it must be made absolutely clear that it is not the policy of the Government to seek tax-raising powers. My personal view is that many other issues need to be dealt with first. In any event, if this institution were to have tax-raising powers, there would have to be yet another referendum. That needs to be made absolutely clear. I say that because I do not want any suggestion to be made outside the Assembly—not by the people who are in here, may I add—that somehow the issue of tax-raising powers and that of obtaining more legislative powers will be linked in March. I know that mischief is being made by some people in that regard. My priority is to ensure that we will have freer use of our legislative powers after March, and the pursuit of the Holtham commission's recommendations will follow. I do not think that pursuing borrowing powers at this stage would be appropriate, mainly because I do not want it to be seen as an alternative to implementing the recommendations of the Holtham commission's first report, namely that the Barnett formula should be reformed. We need the Barnett formula to be reformed first, before any consideration can be given to borrowing powers.

[65] **David Melding:** Holtham suggested that we could have the power to lower corporation tax, for example, and in the report he looks at some examples of where that power has been sought. It is sometimes linked to the level of economic prosperity, for instance, and that lever is given to make a particular regional or national economy more competitive. So, it is all about lowering the state-level tax. Would that require a referendum, in your view?

[66] **The First Minister:** I think that it would.

[67] **David Melding:** You feel that, once you go into the realm of taxation, it opens a door that the people have to be sure that they want to open.

[68] **The First Minister:** I understand that the referendum in Scotland in 1997 was on a specific proposal, namely obtaining powers to raise or lower income tax by up to 3 per cent.

Once you have had a referendum on that, it opens up the general principle of taxation. So, it is right that there should be a referendum on the issue of whether we should be able to tax—not so much on the issue of borrowing, but certainly in respect of tax. Some work would have to be done on what that would mean for Wales. I come back to the point that Gerry Holtham has made very clearly, namely that it is not appropriate to deal with the issue of tax-varying powers until the issue of the Barnett formula is dealt with. I believe that the Welsh tax base is not robust enough at present for us to consider tax-varying powers, and the focus should be on fairer funding rather than considering what is taking place in Scotland.

[69] **David Melding:** Thank you, that is clear.

[70] **Leanne Wood:** You have just said, First Minister, that the tax base is not robust enough. How robust would it have to get?

[71] **The First Minister:** First, we need to resolve the issue in the Holtham commission's first report, namely fairer funding. Secondly, the Welsh economy needs to grow more robustly over the next five or 10 years before this issue is revisited.

[72] **Leanne Wood:** Do you have an idea of the percentage of GDP that you would like to see Wales reach?

[73] **The First Minister:** I would like to see it is closer to the UK average. Scotland's average is close to 100 per cent of the UK's average, but ours is not. We need to get much closer to that figure before we consider the issue of tax-varying powers. The other point to make is that there would be a cost to the Welsh block grant. For example, if we were able to lower corporation tax, that would be wonderful and it would put us in a fantastically competitive position, but there would be a cost to the Welsh block. At the moment, the emphasis for us has to be on fairer funding and growing the Welsh economy before considering tax-varying powers, which, to my mind, would definitely need another referendum. I think that one a year, given that there is already at least one next year, is probably enough for the time being.

9.00 a.m.

[74] **David Melding:** I think that you have been admirably clear on your priorities, but before we leave this section, I think that we should discuss fairer funding. There is a strong consensus among all political parties in Wales that the Barnett formula needs to be reformed. Do you think that current arrangements are being properly applied, or have you sensed that the Treasury is currently doing things that it was not doing before or did differently in past spending reviews? Do you have any disputes with how the Barnett formula is being applied at the moment, or do you think that the problem is just the formula, and not the application of parts of it? Is it just that the process remains one that has not worked to Wales's advantage compared with Scotland and particularly Northern Ireland?

[75] **The First Minister:** I think that the Barnett formula is a problem, as Gerry Holtham has indicated. It is a process that is 30 years old now, and it has become more difficult over the past decade. That is what the evidence suggests. There are some areas in which we would disagree with the view that the Treasury has taken, such as over funding for the Olympic Games, which has been in place since 2007.

[76] **David Melding:** With respect, that applied before the general election.

[77] **The First Minister:** It did.

[78] **David Melding:** I suppose that that is what I am trying to draw—

[79] **The First Minister:** Has there been a change in attitude since the general election? Are you asking me that?

[80] **David Melding:** I would not be as bold and direct as that, but I guess that that is what I am asking.

[81] **The First Minister:** I am not aware of any dispute over the Barnett formula that has arisen since. There are other issues, for example on end-year flexibility. It is the principle of Barnett and the way in which it operates that remains an issue between us and the UK Treasury. The issue of the Olympic consequentials remains the same. Although it is not directly to do with the Barnett formula, another issue has arisen, which causes us concern, namely the next-generation broadband that is to be rolled out across the UK by top-slicing the BBC licence fee. At present, the proposal by the UK Government is that bids would have to be put into the pot that contains the top-sliced money. Our view would be that the top-sliced money should be returned from whence it came, giving us a pot of money to use on next-generation broadband. So, there will be a disagreement at this stage between us and the UK Government as to how that money should be distributed.

[82] **David Melding:** I think that the committee would like to move on. We have talked about issues relating to the block, how it is calculated and the unfairnesses, but the settlement is the settlement, and I think that we would now like to look at how you intend to use the settlement via the Welsh Government's draft budget. Who wants to start? I call on Val Lloyd.

[83] **Val Lloyd:** First Minister, when you were developing the spending plans in the draft budget, what account did you take of the needs of those communities and families in Wales with the greatest needs, and who will lose out the most under the comprehensive spending review? I suppose that I am talking about an equality impact assessment.

[84] **The First Minister:** It is a tool that we use as we develop policy. That is why we took the view that we would look to protect those front-line services that people, particularly vulnerable people, rely on the most, such as schools, skills, hospitals and universal benefits.

[85] **Val Lloyd:** That was done in depth, I am sure, but was it only along those parameters?

[86] **The First Minister:** Protecting the vulnerable is a priority for us. Given the financial settlement that we knew was in the pipeline—and we were subsequently proved to be correct—we had to look to protect those areas that we thought we could protect, and certainly those that would have the most impact by providing a service to vulnerable people.

[87] **Leanne Wood:** Could you explain how an equality impact assessment exercise works? Do you look at how the budget would impact on women? Do you specifically look at how the budget would impact on children, say, as a vulnerable group? Has an assessment been done of how the budget will impact on child poverty indicators?

[88] **The First Minister:** We assess the impact of the proposed reductions on particular groups. That is central to the way that we look to plan the budget. Regard has been given in this budget to the impact on particular groups—not just in respect of gender, disability and race, but also religion and belief, sexual orientation, pregnancy and maternity. That is to ensure that our policy process is consistent with the single equality scheme. So, that informs Cabinet decisions on several levels. First, the corporate decisions taken by the Cabinet are influenced by an equality impact assessment, and the decisions of individual Ministers take into account the impact of policies on particularly vulnerable groups.

[89] **Jenny Randerson:** One of the commonest criticisms of any budget has always been that there is not anything in it for certain parts of the country—in other words, its geographical impact. Have you done any analysis of the budget’s geographical impact?

[90] **The First Minister:** We take the view that it is an all-Wales budget. We do consider the effect on rural areas and on those areas of Wales where there are particularly high proportions of vulnerable people in the population. We have always taken the view that it is important to produce a budget that provides a good level of service and an opportunity for economic development for all parts of Wales.

[91] **Jenny Randerson:** Other than the issues relating to rurality, as I am aware that you have a formula for local authorities, which I presume takes account of rurality in respect of education and so on, how do you ensure that the outlying parts of Wales get the fairest treatment?

[92] **The First Minister:** I think that you have answered your own question in some ways there, Jenny. Education budgets are looked at to ensure that they provide appropriate resources for all parts of Wales, and the same goes for local government. The formula takes account of that. In other areas, an allocation is made that is spent across the whole of Wales. That is particularly true with transport, for example. We seek to ensure that good capital projects come forward throughout Wales.

[93] **David Melding:** Are there any other questions?

[94] **Leanne Wood:** I want to ask about the cuts to central administration in the budget. How much of a cut will be made there and what it will mean? The greatest cost in central administration is that for staff salaries, and I know that you are concerned about, and fully understand, the impact of long-term and deep unemployment, but what can be done to minimise the job losses contributing to high levels of unemployment?

[95] **The First Minister:** There is a significant decrease in the central services administration budget. It will be reduced by £18.2 million between 2011 and 2012, which is a reduction of 5 per cent. It is also right that capital funding, taking it as a discrete element, will decrease by 20.3 per cent. There are two ways of achieving that. The first is to look at our estate and ensure that we reduce the number of offices we have. Given that we now have new offices in Llandudno Junction, Aberystwyth and Merthyr, there is scope for closing some of our other offices, some of which have relatively few people in them. Staff will therefore work out of the new offices, which will mean a saving from the rental costs of the offices that we have had up until now. That was always the plan for when the new offices opened.

[96] Secondly, there will be a reduction in staff, but we are dealing with that through voluntary redundancy or early retirement schemes, rather than going down the route of compulsory redundancies. We have lost some 400 staff already, and we will probably lose between 300 and 400 in the next round of voluntary redundancies and early retirement. The terms and conditions used during that process are set by the UK Government. So, the costs of voluntary redundancies are incurred because we follow the UK scheme. It is not a scheme that we have any influence over, and it is certainly not a scheme that we contribute to.

9.10 a.m.

[97] However, I have said many times that public sector organisations should look at every way of saving money before considering compulsory redundancies. That is what the private sector did: it looked at other ways of saving money before laying people off. That happened in many of the bigger manufacturing plants. The same applies to public sector organisations, and therefore the same applies to us.

[98] **Leanne Wood:** Do you think that it can be done without any compulsory redundancies?

[99] **The First Minister:** We are working on that at the moment. The last round worked on non-compulsory redundancies and we are looking to ensure that the next round is the same. It is certainly not our plan to have compulsory redundancies.

[100] **Leanne Wood:** Thanks for that. I want to ask about the 400 posts that have already gone. Will those posts count as having gone in the budget going forward from these figures, or do we have to cut £18.2 million from now on? Are those 400 posts already included?

[101] **The First Minister:** There will be another tranche that will contribute to the £18.2 million. That is not all of it, because there are other ways, such as rationalising the estate, which will contribute towards that as well. However, we have had one round of voluntary redundancies and there will be another round.

[102] The issue that arises then is how we ensure that we deploy staff effectively, because, of course, you have no control—or not as much control—over who goes from each department with a voluntary scheme. So, we also have a scheme in place to ensure that staff are redistributed to ensure that we have enough depth in departments that may be losing one or two quite senior people.

[103] **Leanne Wood:** Are you also working closely with the trade unions?

[104] **The First Minister:** Absolutely.

[105] **Leanne Wood:** I want to ask about other public sector job losses now. We have had different figures for the number of expected job losses throughout the public sector as a result of the comprehensive spending review. I think that the estimate is that there will be 30,000 job losses. Is that correct?

[106] **The First Minister:** Yes.

[107] **David Melding:** I think that WAG estimates that it will be 38,000, but, since then, the Office for Budget Responsibility has lowered its UK estimate, so you might want to pursue that.

[108] **Leanne Wood:** Can you give us an indication of how many jobs are expected to be lost?

[109] **The First Minister:** We have already produced a figure.

[110] **David Melding:** So, you have not amended your estimate of 38,000.

[111] **The First Minister:** No. Whether that figure turns out to be correct will depend on the view of public sector organisations on compulsory redundancies and so on. I would encourage local authorities to look at other ways of saving money before considering compulsory redundancies. It would involve some difficult decisions about staff terms and conditions, but the view that I have always taken is that that is better than people losing their jobs. In fairness, local authorities are doing this, but I encourage all local authorities and trade unions to look at ways of ensuring that people remain in their jobs and that compulsory redundancies are minimised. No-one can say that there will not be any. I cannot give that commitment on behalf of other public sector organisations, but it is important to demonstrate a commitment to look at every other possibility first.

[112] **Leanne Wood:** Can you give us a rough idea of where those jobs are likely to be lost from? Will the bulk of them be in local government or the health service, for example?

[113] **The First Minister:** Potentially, local government would be the main source of those job losses, if that is what happens. However, other public sector organisations may well find that they are in the same situation of losing people. As I said, it is important that all public sector organisations look at every other opportunity first to ensure that the potential for compulsory redundancies is minimised as much as possible.

[114] **Leanne Wood:** I just want to clarify whether the figure of 38,000 is the total number of jobs within the public sector in Wales expected to be lost or just the number for the non-devolved areas?

[115] **The First Minister:** It is for both devolved and non-devolved areas.

[116] **David Melding:** That was my understanding. If you accepted the original calculation from the Office for Budget Responsibility three months ago, I do not understand why you do not accept its amended calculation now, which I presume uses the latest data. Why have you not made another calculation? You are sticking with the highest figure, and I cannot quite understand your methodology.

[117] **The First Minister:** We have done our own calculations.

[118] **David Melding:** So, 38,000 is the figure that you came up with and is not based on the figure from the Office for Budget Responsibility.

[119] **The First Minister:** The figure that we have come up with is 30,000 to 40,000. So, it is close to the original figure.

[120] **David Melding:** Okay. Do Members want to pursue that? The answer is the answer.

[121] **Jenny Randerson:** You used a comparison with the private sector in a recent answer, and said that the public sector must be like the private sector, or words to that effect, and look at all possible ways of avoiding job losses. In some cases, local authorities are ensuring that working practices change, and, for some people, their terms and conditions of employment are changing in order to avoid job losses. Are you applying that approach to jobs within your own purview and within the Welsh Assembly Government's direct remit?

[122] **The First Minister:** Yes, it has already happened; we have looked at issues such as travel costs to make sure that we bear down as much as possible—we are not exempt from the need to look at the way in which we work compared with other public sector bodies.

[123] **Jenny Randerson:** Have you done anything other than look at travel costs?

[124] **The First Minister:** Yes, we are looking at the way in which we use consultants. We are also looking at the use of outside buildings for events and we are looking at our budget for events such as the Eisteddfod, the Royal Welsh Show, and so forth—every area where there is a potential to make a saving is being investigated.

[125] **Val Lloyd:** Voluntary redundancies are obviously preferable to compulsory redundancies; of course, no redundancy is to be favoured, but redundancy is marginally better if it is voluntary. When that is on offer, sometimes the press for it is more than you need, and it can be difficult to ensure the right skills mix. How are you addressing that, because, in my limited experience, you tend to lose a great range of skills, which leads to a deficit? What

plans do you have to spread that load, so to speak?

[126] **The First Minister:** This is, ultimately, a matter for the Permanent Secretary, but it is not the case that every single application for voluntary redundancy or early retirement is approved, for the very reason that you suggested. We cannot have an open door, because that could cause us staffing difficulties in certain departments and in certain areas. Nevertheless, the opportunity is there to apply for the two schemes. The last scheme was successful, and we believe that the next one will be as well, without affecting the skills mix that we have in Government.

[127] **David Melding:** I have a couple of questions, but I am keen for others to get the first crack.

[128] **Leanne Wood:** Are there any plans to look at high pay within the public sector? There have been a couple of stories in the press recently about the salaries of university vice-chancellors and health authority executives. The representations that are made to me are that the highest paid in an organisation can often receive 6 per cent or 7 per cent annual pay increases, for example. There is definitely a perception that people are treated differently depending on where they are in salary terms. Is high pay something that you have looked at?

[129] **The First Minister:** The pay of Ministers has been frozen for some years.

[130] **Leanne Wood:** I am talking about workers within the public sector earning more than you.

[131] **The First Minister:** The Assembly Government's terms and conditions are civil service terms and conditions, but I accept your point that it is not right that there should be high pay increases for those at the top with nothing for those at the bottom of the income scale. That principle must apply throughout the whole of the public sector. I have also noticed that the UK Government is saying that no-one in any organisation should earn 20 times more than those at the lowest-paid end of that organisation, although I do not think that that applies here—I do not think that we have anyone who earns 20 times those at the bottom level.

[132] **Jenny Randerson:** I understand the problems with varying civil service terms and conditions, but Leanne also mentioned the health service, of which you have direct control. I do not support the view that we have massive bureaucracy in the health service, but we have a mass of really rather well-paid people in the health service now. These are managers, and this is the inheritance of coming from 22 health boards and the structure that we had before down to the current very small number of health boards. There seem to be a lot of people still on considerable salaries in management positions. Has there been any direct or indirect instruction to health boards that they should be keeping an eye at the very least on the levels of pay at the very top and the numbers at the top?

9.20 a.m.

[133] **The First Minister:** The health boards have been told that over the next four years they should find a 20 per cent reduction in management costs and that will inevitably include salary levels, particularly for those at the top end.

[134] **Jenny Randerson:** Thank you.

[135] **David Melding:** I have a few questions, First Minister. Capital spending has obviously taken a severe cut, but it seems to me that the Welsh Assembly Government is passing on the largest part of that to local government. A good example is the trunk road grant for road building and maintenance, compared to the grant that is passed to local authorities.

The local authorities grant is being cut hugely, but that is not as much the case for the trunk road programme. I also notice, with regard to the local government settlement, that your capital spending is being cut to around the 20 per cent mark, but that local government is getting well above a 40 per cent cut on average. What is the methodology in that in terms of local government taking the main hit and not the Welsh Assembly Government? Why has it not been apportioned slightly more fairly?

[136] **The First Minister:** I do not think 40 per cent is the right figure, but we should remember that local government can borrow. Therefore, if it wishes to fund particular schemes, it can borrow money to do it in a way that we cannot. It is right to say that we have borne that in mind when allocating capital budgets to local authorities.

[137] **David Melding:** Are you hoping they would borrow, because—

[138] **The First Minister:** It is a matter for them to decide what they want to borrow, but they are able to raise funds in a way that we—and local health boards, for example—cannot. So, what we have tried to do is allocate capital to those areas in particular where there is no possibility of borrowing money. We bear in mind that local authorities can borrow money, and that is obviously a factor in their capital allocation.

[139] **David Melding:** It is an interesting answer, because, if you look at aggregate demand, particularly demand, say, for the small and medium-sized enterprise sector, it will often be capital spending by local government that attracts or has more tenders being taken up by that part of the Welsh economy, whereas a lot of the Welsh Assembly Government's spending goes to larger companies and UK companies that may be based in Wales. It seems to me that a good way of injecting demand into the Welsh economy is through the local government spend. Would you say that is true and that it is appropriate for borrowing powers to be looked at very seriously? Usually, Government says the reverse, that is to be very cautious about borrowing.

[140] **The First Minister:** As I have said before, the issue of borrowing powers is bound up with the issue of Holtham part 1. The issue of fair funding must be dealt with first before considering any other issue. The reason why Northern Ireland can borrow is that, historically—

[141] **David Melding:** Sorry, I meant in relation to local government, because you have answered that part very clearly in terms of the Welsh Assembly Government. I find it interesting that you think that some of the gap could be made up by local government borrowing. It is an important point that you are in front of this committee saying that those powers ought to be looked at seriously and that local government is getting some encouragement from you to make good some of the difference.

[142] **The First Minister:** I would not say 'encouragement'; I would say that they have that option. It is not my role to suggest ways forward for local government finance or for individual local authorities, but should local authorities wish to fund particular projects, they are able to borrow to do that.

[143] **David Melding:** My final question on this matter is one for clarification, although it may be one more for your officials. The whole question of the budget is of great concern to the public and goes to the heart of the scrutiny process of the legislature. I keep seeing two figures in relation to the overall cut in real terms to the Assembly Government's combined revenue and capital budgets over the spending review period. I read repeatedly that there is a cut of 9.2 per cent, but I also read of a cut of 11.3 per cent, and I am mystified as to why those two figures keep cropping up—sometimes in the same paragraph. I sometimes have difficulty understanding my own bank statement, so it is probably me, but, if someone could clarify

that, I would be grateful.

[144] **Mr Jeffreys:** Unfortunately, it is a little complicated, for a number of reasons. Part of the problem is that there has been some disagreement over the starting point for calculations of changes over time. For example, the figures that have been published by the Treasury in the spending review were calculated from a reduced Assembly Government baseline, while the figures that we have been using are calculated based on our actual 2010-11 budget. So, there has been some confusion—although I am not sure whether ‘confusion’ is the right word—or disagreement about the figures because of that factor.

[145] There is also the issue that the Assembly Government publishes its budget over a three-year period, whereas the spending review covers a four-year period. So, I think that the difference between the two figures arises from looking at the change over three years and four years respectively. Inevitably, there are a lot of numbers flying around in relation to cash changes, real-terms changes, different periods and different baselines, and that is a source of some confusion.

[146] **David Melding:** So, if we are analysing the draft budget over the next three years, the 9.2 per cent figure is probably the better one for us to scrutinise.

[147] **Mr Jeffreys:** Yes, that is the change over the three-year period that our budget covers.

[148] **David Melding:** That is helpful.

[149] We shall move on. We have discussed the Holtham commission; I would be prepared to return to it if there is something that we have not covered, but I think that we have more or less covered all of it. We have also had a fair crack at public and private sector employment and how the budget affects that. Do Members want to return to any points that they feel have not been explored properly? I see that you do not. Therefore, we shall move on to non-domestic rates.

[150] **Jenny Randerson:** My question relates to the fact that the hit that we took in relation to the CSR resulted from the way in which we are affected by the non-domestic rates and the fact that we have less control over non-domestic rates than Scotland and Northern Ireland. The Treasury has traditionally bundled the department’s activities together, and, because of that averaging process, we are affected by 100 per cent of reductions in non-domestic rates, whereas there was only an 80 per cent reduction in Scotland and Northern Ireland as a result of it. As that is the traditional approach of the Treasury, as I understand it—and perhaps you can confirm whether it indeed bundles everything up and produces an average for the whole department—that problem has clearly been affecting us for some years. It may be that you have made representations to the Treasury in the past, but are you making representations to the Treasury now about the way in which it deals with the departmental expenditure and whether that should be done on a case-by-case basis rather than as an average for the whole department? On the other hand, is it perhaps your view that, although there is a problem in respect of non-domestic rates on this occasion, taking things on a case-by-case basis might cause us more problems than taking them as a whole?

[151] **The First Minister:** I will let Andrew deal with the technical details but, under the present system, where we have rising budgets, we have benefited more than Scotland and Northern Ireland because of the system that exists now. The opposite works in days of declining budgets. I will ask Andrew to come in on the technical details.

9.30 a.m.

[152] **Mr Jeffreys:** The difference between Wales, Scotland and Northern Ireland on this is that, for Wales, non-domestic rates are within our DEL budget, whereas, for Scotland and Northern Ireland, they are annually managed expenditure, outside the Barnett formula. As the First Minister has said, this has been the case for a long time. Over the period since devolution, this has been significantly to our benefit, because central Government funding for local government has risen more rapidly than non-domestic rates. Our figures suggest that, compared with the Scottish system, we have benefited by about £1.5 billion—perhaps a bit more—over the 10 years. In the spending review period to come, the significant change that has occurred is that, although non-domestic rates income is forecast to rise by about 20 per cent, grant funding to local government in the UK is going down significantly by about 20 per cent, so that effect starts to reverse itself. The rules have been applied consistently; it is just that the spending context is very different.

[153] One of the paradoxical positions that we seem to be getting into is that, in England, funding for local government by the end of the spending review period will be lower than the business rates yield. I am not sure how they are going to handle that, but the effect of that is that, over the next four years, we will do a bit worse than Scotland and Northern Ireland because of that effect.

[154] **Jenny Randerson:** So, setting aside one's arguments with the Barnett formula as a principle, from the point of view of tactics on this, it is probably best to sit tight and wait for spending to grow again, and then we will start to benefit again. Is that what you are saying?

[155] **Mr Jeffreys:** That is one approach. The other advantage of having non-domestic rates within the DEL is that you are protected from fluctuations in the yield, so you have that certainty about the level of funding that you will get. Sometimes that is a benefit, because the yield goes down, compared with what you were expecting; sometimes it is a disbenefit. However, there is some advantage in that stability.

[156] **The First Minister:** I would be content to leave things as they are with regard to non-domestic rates, if we pursue the implementation of Holtham part 1.

[157] **David Melding:** Do Members have any other questions relating to the draft budget? I see that you do not, so that concludes that part of the scrutiny session.

[158] We asked for a paper on the administration of justice tribunals in Wales. Members have seen that paper. First Minister, do you want to update us on that note, or does it stand as fully up to date?

[159] **The First Minister:** It stands by itself I think.

[160] **David Melding:** We are grateful for that. I do not think that Members have any questions on that. Do Members wish to take the opportunity to put any questions or make any general points to the First Minister? I see that there are none. However, I have one—perhaps I will indulge my position as Chair. You had a very vigorous letter in today's *Financial Times* on the application of EU funds in Wales. I think that it is fair to say that, on any technical assessment of how these funds have been administered, the Welsh Assembly Government has had good reviews in the European Commission. It has demonstrated probity, and record keeping and the technical side have been done very well and been commended very highly. I suppose that, on the outcomes side, we are the only region that is probably going to qualify again, as the other areas that had assistance at this level—Cornwall and, I think, South Yorkshire and Humberside—have improved their GVA position relative to the UK economy. So, I wonder how you see this part of the Welsh Assembly Government's performance, given that we have actually slipped back a little. It has been a very difficult task to shift the economy in the direction that we want it to go. I realise that that is a much bigger question

than just the EU regional funds, but they are meant to be a fillip in that direction as well. So, given that this is being reviewed at European level, what would you say about outcomes?

[161] **The First Minister:** The first thing that I need to make clear is that it is our ambition not to qualify for the highest level of structural funds for west Wales and the Valleys from 2015 onwards. Our ambition would be to get transitional funding, and there seems to be good news on that. It has always been the case in the past that, where the highest level of structural funds had been made available to a region, a financial cushion has always been applied after it. We also want to ensure that we get proper competitiveness funding for east Wales. So, that is absolutely clear: our ambition is not to qualify. The unusual situation that we have in west Wales and the Valleys is that, unlike South Yorkshire, Cornwall and Merseyside, a significant number of people leave the convergence funding area every day to go to work outside it, particularly in Cardiff, which sits just outside. So, it means that, if jobs are created for people who live in Taff's Well, but those jobs are created down the road in Radyr, the effect is to lower the GVA of west Wales and the Valleys. GVA is measured on the basis of where people work and not where they live, so you could have full employment in communities in the lower valleys, but if those people mainly, or all, work in Cardiff, it looks as though the GVA of that area has dropped considerably. This is the measure that the European Union uses, but a better measure of success, in my view, is domestic household income. That measure is taken on the basis of where people live, not where they work. Those figures show an improvement with convergence funding in place. So, it is a difficult issue, because of the presence of so many large centres of employment just outside the convergence funding area. It is a factor that did not exist in any other area of the UK. So, there is improvement, but it is better measured through gross domestic household income. I will make it absolutely clear that our ambition is not to qualify, even on GVA figures, from 2015 onwards.

[162] **David Melding:** However, GVA for the whole of Wales, not just west Wales and the Valleys, has declined, so I cannot quite see how there will be a relative improvement.

[163] **The First Minister:** We have seen an improvement in GDHI figures in west Wales and the Valleys. I have mentioned the difficulty of using GVA as an accurate figure in terms of—if I can put it bluntly—people's income per head in the convergence funding areas, because of the presence of so many centres of population outside those areas where people work.

[164] **David Melding:** Is the Government working on this? For the scrutiny function, it is essential that we know what the benchmarks are, because GDHI includes transfer payments, which is a very different measure of economic activity than the traditional GVA figures. They have their advantages, I completely accept that, but how on earth are we to evaluate the performance of the Government's outputs? People have said that some of them are disappointing. I will ask the Minister to respond, then I will come back to Leanne.

[165] **The First Minister:** Looking at GVA is difficult in west Wales and the Valleys. GDHI is a different measure—that is correct—but it is probably more accurate in assessing people's income based on where they live. For example, I am a drain on the GVA of west Wales and the Valleys, because I live in west Wales and the Valleys but I am paid in Cardiff. For the purposes of these figures, I live in Bridgend, where I appear to be economically inactive, thereby bringing down the GVA per head of west Wales and the Valleys, while adding to the GVA of Cardiff.

[166] **David Melding:** You are saying that you have no economic activity in your place of abode, which I suspect is unlikely, but—

[167] **The First Minister:** I have no other source of income, Chair, I can promise you. *[Laughter.]*

[168] **David Melding:** I know that you go back and spend in Bridgend; I am sure that members of the Jones household are pretty enthusiastic local shoppers. I am not sure that these matters can be resolved here. We started on this point about essential benchmarks and how we measure the Government's success or lack of it. Incidentally, as an opposition Member, I think that it would often be to the Government's credit if we had more effective benchmarks, because sometimes they would be capturing and measuring improvement. However, it is difficult for the legislature to know quite how to hold the Executive to account on some of these matters. That is my frustration, anyway.

9.40 a.m.

[169] **Leanne Wood:** I have two questions on that. If we look at this GDHI figure, would that show improvement in west Wales?

[170] **The First Minister:** In west Wales and the Valleys, yes.

[171] **Leanne Wood:** Just so that I can understand, is that the measure used to measure poverty and child poverty?

[172] **The First Minister:** No, there are a number of tools that are used to measure child poverty.

[173] **Leanne Wood:** Sixty per cent of—

[174] **The First Minister:** I believe that it is household income, but there are a number of other ways in which child poverty can be recorded. The difficulty with poverty is that it affects different people in different ways according to where they live. That is why it is important.

[175] **Leanne Wood:** I am talking about when the Labour Government said that, within 20 years, it would eradicate child poverty. It introduced a new measure; was that it? I thought that it was 60 per cent of median gross household income.

[176] **The First Minister:** I believe that that is the same measure.

[177] **David Melding:** You may want to confirm in writing whether that is the case. We realise that you may not have all these facts at your fingertips. Any paper on how west Wales and the Valleys has performed in the past 10 years using GDHI would be quite helpful—if your statisticians have been working on that, a short paper to that effect would be illuminating.

[178] **Jenny Randerson:** I want to go back to the broadband fund that you referred to—the UK Government one. You said that, because it was top-slicing the licence fee, you took the view that the money should be returned whence it came. I understand that entirely, philosophically. However, I am interested in whether you think that, actually, we might benefit from a bidding process. Given that our broadband is relatively weak in comparison with large parts of the rest of the UK, I would assume that we were a worthy cause for this fund. Have your officials done any analysis or assessment of whether it would benefit us to get into a bidding process as opposed to simply taking our Barnett share, which we are all agreed is not fair?

[179] **The First Minister:** Would we want a Barnett share? There are some areas of expenditure that are not Barnettised—agriculture being one of them. The reason for that is that there is recognition that Wales has more than 20 per cent of the UK's animals and we are

not funded on the basis of having 5 per cent of the people. In the same way, there is an argument that, due to Wales's topography and its rural nature, we should in fact receive a share that goes beyond Barnett; but let us deal with one issue at a time. The announcement was made yesterday that we have our own plans, of course, for next-generation broadband. What is the best approach for us to take? It depends on how successful we are in getting the bids. If we were to receive an amount of money that went beyond the share that we otherwise would have got, of course that would be a success, but at this moment in time, what troubles me is the principle of bidding for a share of money that comes from Wales in the first place. If you top-slice something to create a pot of money, you are effectively asking people to bid for their own money.

[180] **Jenny Randerson:** I understand that point; I am just thinking about this tactically and wondering whether we might do better because we can make a strong case that we are lagging behind in broadband development.

[181] **The First Minister:** The other issue that needs to be recognised is that it is far from clear whether the pot of money that would be created as a result of top-slicing the licence fee would come anywhere close to being enough to spread broadband at the required speed across the whole of the UK. By some estimates, it would raise less than one twentieth of the money that would be needed. That announcement was made yesterday, and I think that a lot of analysis is still needed of what it might mean for Wales and, indeed, the rest of the UK.

[182] **David Melding:** It strikes me that, if this committee is able to meet again before the close of this Assembly term, should we choose to meet perhaps in March, after the referendum, which itself might throw up strategic issues that we would want to put to the First Minister, we could return to the issue of broadband, because it is an important issue. As the First Minister said, this announcement was made only yesterday and it probably needs a little while before we can see how the territory lies.

[183] **The First Minister:** I thought for a moment, Chair, that you were suggesting that we should meet again before Christmas. I am always open to scrutiny, but—

[184] **David Melding:** No, I meant before the third Assembly concludes. I am not sure whether the Assembly has terms or sessions, or what the correct terminology is. I think that we have exhausted the questions that we wanted to put to you this morning, First Minister. I am very grateful to you and your officials, particularly for the open and candid way in which you have responded to our questions. It is a great help to this committee to have this level of engagement, and it allows us to follow up some very important issues on behalf of the Assembly as a whole. You are scrutinised in the Chamber every week, but the committee allows us to drill down into more detail than is sometimes possible in the Chamber. So, we are very grateful for your attendance this morning and the way in which you have helped us with our deliberations. Thank you very much.

[185] That concludes the formal part of our meeting, so I will close proceedings. However, I ask Members to stay on for a couple of minutes.

*Daeth y cyfarfod i ben am 9.46 a.m.
The meeting ended at 9.46 a.m.*